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SUBJECT: ECUADOR ECON WEEKLY: NEW OIL ARBITRATION; CENTRAL BANK GETS HELP; MINING UPDATE; ECONOMIC INDICATORS

REF: A: QUITO 505
B: QUITO 365

¶11. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

More on GOE Efforts to Review Macroeconomic Data

¶12. (U) The Central Bank of Ecuador (CB) invited three technicians from the Economic Commission for Latin America and the Caribbean (ECLAC) to review its economic indicators. The ECLAC team is scheduled to arrive the last week of June.

¶13. (SBU) According to Embassy Buenos Aires, we understand that Correa's Argentine economic advisor (which he announced in his weekly radio address - ref a) is a colleague who studied with Correa in the U.S. and who currently works in the Argentine Central Bank's economic studies department. The Argentine colleague has not yet decided whether he would take a leave of absence in order to advise the GOE for a year or more.

¶14. (SBU) The Ministry of Finance requested that the International Monetary Fund provide it assistance to improve its ability to review macroeconomic data. A small assessment team was in Ecuador the week of June 16, to lay the ground work for a larger team that would come later.

¶15. (SBU) Mateo Villalba, advisor to the Under Secretary of Macroeconomic Consistency in the Ministry of Finance, outlined for econoffs the main concern with the Central Bank's GDP data. Without going into much detail, he said that the methodology used by the Central Bank results in very volatile petroleum production calculations. In some years that exaggerates the upward trend in growth, and other years it suppresses the overall growth rate. He said that in 2007 the non-petroleum sectors grew at a good, steady rate but that performance was pulled down by declining petroleum production. He also mentioned problems with the Central Bank's methodology to assess petroleum refining, which shows up lost value, based on the difference between international prices for crude and controlled domestic prices for refined products. Villalba said that Central Bank's methodology for assessing the petroleum sectors needs to be fixed, but allowed that that will take time and would not have a large impact on the overall GDP growth rate.

Repsol Files for International Arbitration

¶16. (U) On June 9, the Spanish oil company Repsol filed for arbitration at the World Bank's International Centre for the

Settlement of Investment Disputes (ICSID). Repsol is the partner of U.S. oil company Murphy, which filed for arbitration in April. Like the other foreign oil companies that have filed for arbitration, Repsol's reason for filing was the law that requires that oil companies provide the government with a share of "extraordinary revenues" (first 50%, and subsequently raised to 99%). Federico Cruz, Repsol's spokesman in Ecuador, said that the company would prefer to reach a negotiated agreement with the GOE and stay in the country.

¶7. (U) Ecuador has the second largest number of arbitration cases at the ICSID, after Argentina.

Mining Developments

¶8. (U) On June 9, the Ministry of Mines and Petroleum implemented articles 2 and 6 of the mining mandate, which froze almost all mining exploration in the country and revoked 1,138 mining concessions (ref. B). Two million hectares are to be returned to the state out of 4.5 million hectares that were covered by mining concessions. According to the GOE, concessions that did not pay for environmental permits and concessions that were up for approval in April 2008 are being revoked. Ten companies will lose their concessions: All Metals Mineria, Atlas Moly S.A., Eguiguren Aryans Carlos Arturo, Dai Zhou Xiaohui, Compania Minera Mariana, Sierramin, Channel Mining Resources, Elipe S.A. and Copper Santa Barbara and EcuadorGold.

¶9. (U) In other mining news, Minister of Petroleum and Mines Galo Chiriboga announced that the GOE's new draft mining law will be

ready for submission to the Constituent Assembly by June 27. On June 6, Stephen J. Kay, President and CEO of International Minerals Corp., told the New York Society of Securities Analysts metals and mining conference that he thinks the market will be pleasantly surprised with the new mining law. According to a study by the Central University of Ecuador, Ecuador has mining potential of 94 million ounces of gold, which is equivalent to USD 84.4 billion at current prices.

Remittances

¶10. (U) According to Central Bank data, remittances grew by 12.3% in the first quarter of 2008 in comparison with the same quarter in 2007, totaling \$759.3 million. (This was, however, a drop from remittances in the fourth quarter of 2007, but it appears that remittances typically weaken in the first quarter.) Much of Ecuador's remittances come from the Euro zone, and the Euro has strengthened against the dollar, which has helped to shore up dollar-based remittances.

¶11. (U) Since 2006, remittances coming from the U.S., Spain and Italy represent 95.4% of all remittances entering Ecuador. On average the monthly amount of money sent per person is \$516 from Spain, \$457 from Italy, and \$299 from the US. Almost half of the remittances go to the coastal region; 31.7% goes to the southern part of Ecuador, and 22.8% goes to the highland region.

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